

COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

)
Cambridge Electric Light Company)
and) D. T. E. 99-_____
Commonwealth Electric Company)
)

PETITION FOR APPROVAL OF BUYDOWN OF POWER CONTRACT WITH CANAL ELECTRIC COMPANY FOR SEABROOK UNIT NO. 1 POWER

Cambridge Electric Light Company ("Cambridge") and Commonwealth Electric Company ("Commonwealth") (together, the "Companies") hereby petition the Department of Telecommunications and Energy (the "Department"), pursuant to G.L. c. 164, § 1A, 1G, 76, 94 and 94A to approve: (1) the Sixth Amendment to a Power Contract between Canal Electric Company, Cambridge Electric Light Company and Commonwealth Electric Company (appended hereto as Appendix 1) (the "Buydown Agreement"), which provides for the Companies' buydown of their embedded cost obligation with Canal Electric Company ("Canal") with respect to purchasing electricity from Seabrook Unit No. 1 ("Seabrook") (the "Buydown Agreement"); and (2) the inclusion of the Buydown Amount as an adjustment to the Companies' applicable Transition Charge.

As described below, the Companies' proposal complies with Chapter 164 of the Acts of 1997 (the "Act"), the Department's Order in D.P.U. /D.T.E. 97-111, and applicable precedent:

Commonwealth and Cambridge are electric companies providing retail service in Massachusetts and are subject to the regulatory jurisdiction of the Department.

Canal is engaged in the generation and sale of electricity at wholesale. Its sales are subject to the regulatory jurisdiction of the Federal Energy Regulatory Commission (the "FERC") under the Federal Power Act. Canal makes no retail sales of electricity.

Canal, Commonwealth and Cambridge are parties to an agreement dated September 1, 1986, as amended by agreements dated June 1, 1988, February 28, 1990, December 5, 1991, December 19, 1991 and March 6, 1992, providing for the sale of capacity and related energy by Canal from Seabrook to Cambridge and Commonwealth under a life-of-the-unit agreement (currently anticipated to terminate in 2026) (the "Seabrook PPA") (appended hereto as Appendix 2). Commonwealth is entitled to 80.06 percent of the capacity and related energy (approximately 32.5 MW) produced by that portion of Seabrook owned by Canal (3.52317 percent, or approximately 40.5 MW) and Cambridge is entitled to 19.94 percent (approximately 8 MW).

The Buydown Agreement provides for the Companies' buydown of a portion of their obligation for the embedded costs associated with Canal's Seabrook investment. The

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primary terms of the Buydown Agreement include the following:

a. Commonwealth and Cambridge agree to make a buydown payment to Canal ("Buydown Amount") of \$59,412,000 and \$14,797,000, respectively.

In consideration of the Companies buydown payment to Canal, Canal agrees to reduce the Demand Component of the Seabrook PPA through a reduction to the Investment Base of \$74,209,000.

Related to the reduction in the Investment Base is a reduction in the Reserve for Accumulated Deferred Income Taxes in the amount of \$29,108,000.

The Seabrook PPA also is amended to allow for changes in the schedule of decommissioning costs as determined by regulatory agencies with jurisdiction over such costs, without the need to amend the Seabrook PPA every time such changes in decommissioning costs are determined.

d. The Buydown Agreement will not become effective until approval by the Department has been obtained, including approval of the full recovery of all payments made by the Companies under the Buydown Agreement.

The Department has broad authority to regulate the ownership and operation of electric utilities in the Commonwealth. On February 27, 1998, the Department approved restructuring plan of the Companies and Canal (the "Restructuring Plan") and determined that the Restructuring Plan was consistent with and substantially complied with the Act. Cambridge Electric Light Company, et al., D.P.U./D.T.E. 97-111 (1998). Moreover, in its Order, the Department held that the Companies were "committed to full mitigation of their transition costs. . .". D.P.U./D.T.E. 97-111, at 64.

The buydown payment to Canal under the Buydown Agreement will be made by Commonwealth from funds held by the special-purpose affiliate, Energy Investment Services, Inc. ("EIS") and, by Cambridge, from funds held by EIS and cash collected as a result of Cambridge's divestiture of its generating units. The Department's approval of EIS in D.T.E. 98-78/83-A (1998) permitted the Companies to use EIS to hold and to manage the Canal proceeds net of the Canal-related fixed component of the Transition Charge and associated income taxes (i.e., only the above-book value proceeds).

A description of the transition-cost recovery and economic analysis for the Buydown Agreement is appended hereto as Appendix 3, which demonstrates that payment of the Buydown Amount under the Buydown Agreement will result in substantial savings to the Companies' retail customers when compared to the net present value of payments under the Seabrook PPA. The comparison indicates substantial mitigation of transition costs for the Companies' customers.

The Companies are seeking approvals of the Buydown Agreement and the ratemaking treatment of the payments thereunder in accordance with the Company's proposal, which is described in the testimony of Robert H. Martin, which is filed on this date in the Companies' Transition Charge Reconciliation Filing, and as may be deemed required by G.L. c. 164, §§ 1A, 1G, 76, 94 and 94A. The Buydown Agreement and the requested ratemaking treatment are fully consistent with the Department's directives to Massachusetts electric utilities to mitigate transition costs by engaging in good faith efforts to renegotiate, restructure, reaffirm, terminate or dispose of existing contractual commitments for purchased power. Boston Edison Company/Commonwealth Electric Company, D.T.E. 98-119/126, at 38 (1999).

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WHEREFORE, the Companies petition the Department to approve this Petition to make the following findings:

That the Buydown Agreement is in the public interest and will result in just and reasonable rates for the Companies' retail customers, consistent with the statutory requirements of G.L. c. 164, §§ 1A, 76, 94 and 94A;

That the Companies, in entering into the Buydown Agreement, have taken all reasonable steps to mitigate, to the maximum extent possible, the total amount of transition costs relating to Seabrook in accordance with G.L. c. 164, § 1G.

That the Buyout Amount shall be included in and recovered as part of the Transition Charge in accordance with the Companies' proposal, and as may be deemed required by G.L. c. 164, §§ 1A, 1G, 94 and 94A;

That the Department grant any other approvals and make any requisite findings as may be necessary or appropriate in relation to this Petition.

Respectfully submitted,

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COMMONWEALTH ELECTRIC COMPANY

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